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SIPDIS

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AF/S FOR HTREGER AND JMALONEY
JOHANNESBURG FSC FOR RDONOVAN
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USDOC FOR RTELCHIN
MCC FOR SGAULL AND MHARRINGTON
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SUBJECT: Mozambique's Private Sector Raises its Voice - GRM
is Attentive

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Sensitive But Unclassified - Handle Accordingly

¶1. (U) Summary: On May 3-5 Mozambique's national business association, CTA (Confederacao das Associacoes Economicas de Mocambique) held its ninth annual conference. Entitled "For a Better Business Environment: Opportunities in the Global Market," the conference focused on the effects of globalization and spurring economic growth at the district level. In a sometimes lively forum, two key contentious issues emerged: whether land could be used as collateral and whether the government ought to fund a development bank. The private sector and government representatives disagreed over the land question, but most favored a development bank. The gathering was not designed to be decisive, rather an opportunity to hear advocates for range of policies of central interest to the private sector and to underscore some the key challenges businesses face. The GRM was attentive. In this sense CTA's conference was a success. End summary.

¶2. (U) On May 3-5 Mozambique's national business association, CTA (Confederacao das Associacoes Economicas de Mocambique) met in Maputo for its ninth annual conference. (Note: The USG has provided significant financial and technical support to both CTA and the conference for the past eight years. End note.) Entitled "For a Better Business Environment: Opportunities in the Global Market," the conference focused on the effects of globalization and spurring economic growth at the district level. Keynote speakers for the conference, Dr. Stephen Radelet and Dr. Frank Flatter, both respected market economists, were identified and funded through USAID.

¶3. (U) President Guebuza, the Mayor of Maputo, the Minister of Industry and Commerce Antonio Fernando, and the President of CTA all addressed the conference during the opening session. There was significant, high-level GRM involvement throughout the three days of the conference, including two speeches by the Prime Minister, speeches by the Ministers for Industry and Commerce, Agriculture, Labor, Justice, Tourism, Transportation and Communication, and Public Works

and speeches by the Vice-Ministers for Finance and for Planning and Development. In addition to the many presentations given by the various CTA sector interest groups, there were presentations by senior business leaders such as the Chairman of the Board of BCI Fomento Bank and the head of Dunavant Mozambique, by the USAID/Mozambique Mission Director, by the founder of a local business school, and by a District Administrator. A session exploring the role of women in business showcased a panel including the First Lady, Mrs. Maria da Luz Guebuza. A closing summary of the main issues raised by the conference was provided by the Executive Director of CTA.

GRM Sees Land Tenure Regime No Impediment to Development

14. (SBU) The President's and other high-level speeches all favored support for private sector development and an improved business environment. However in one critical area, land use rights, there was considerable discord between the private sector and the GRM. The private sector favors the simplification of the cumbersome land use transfer processes and legal requirements, and the strengthening of the security of land use rights/tenure. The GRM, on the contrary, asserts that the existing system is perfectly sufficient and does not negatively affect private sector growth or investment. In his speech, President Guebuza, indicated that he did not know of a single instance where private sector investment was hindered by current land policies, citing - somewhat inappropriately, in our view - the success of mega-projects such as the giant aluminum mill, MOZAL. (Note: Under the Mozambican constitution all land is owned by the Government. Individuals are given long-term leases for specific uses and applications for lease rights are approved on a case-by-case basis. The sale of lease rights is subject to administrative approval by government. End note.)

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15. (SBU) Comment: Land increasingly has become a contentious topic, as the private sector and some donors press that land use rights be made sufficiently transparent so that land can be used as collateral. The GRM, on the other hand, is cautious about taking this step, which some believe will lead to privatizing land - something that for political reasons many, including members of civil society, in this former socialist country oppose. Their oft stated concern is that were land to be privatized, many poor farmers would be bought out and forced to migrate to the cities, where they would have considerable difficulty finding work. Some observers, however, cynically claim that many of the powerful in Mozambique already have obtained large concessions, and prefer the rather murky status quo, which favors the well-connected. End comment.

Development Bank

16. (U) Another contentious issue repeatedly raised by both GRM officials and private sector participants was the need for a Mozambican development bank. (Note: For most in attendance, such a bank would be a agricultural development bank, although some advocated credit for industry, too. End note.) Nearly all of the GRM officials favored establishing one. Of the GRM officials who spoke at the conference, only the Vice Minister of Finance discussed the need for proceeding carefully and cautioned that without the necessary groundwork - proper land registries, clear titles, bankruptcies provisions, etc - such a bank would be unable to properly function. The two keynote speakers had also promoted the idea of proceeding cautiously as development banks in most cases have not been successful. Furthermore, Dr. Radelet presented the economic argument against development banks, stating that any concessional lending

provided by the bank would have to be paid for by hiking interest rates elsewhere, if the government did not want to increase the rate of inflation. The majority of the private sector, with the notable exception of the Chairman of the Board of BCI Fomento Bank, was extremely supportive of the concept of a development bank as many persons were able to obtain "free money" under previous development bank schemes.

17. (U) The audience reserved most of its applause for requests for special favors or subsidies (the development bank was only the largest of several angles) from the government. Fisheries asked for fuel subsidies, remoter regions asked to pay the same price for imported fuel as the port cities, etc.. One intervention recommended that Dr. Stephen Radelet, the keynote speaker, who had dared suggest that development banks always cost money and almost never work, should be strangled. The Prime Minister, in her closing, defended the development bank, but also said that in Mozambique, it is considered impolite to strangle honored guests.

18. (U) Members of the private sector expressed general satisfaction with the conference, although a recurring complaint was lack of time for debates. Previous conferences allowed more time for debates and discussions with the various Ministers, by holding simultaneous sessions and making fewer formal presentations.

Comment

19. (U) Despite a good deal of support from the floor for policies that would cause more harm than good, the conclusion was a sober focus on four major issues: fiscal policy; financial services; red tape; and transaction costs. CTA showed itself to be capable of responsible policy analysis and President Guebuza clearly welcomes this. Improving the business environment was the focus of this conference, and President Guebuza and other GRM officials are clearly supportive of this endeavor. There are also indications that he, unlike his predecessor, is willing to make the bureaucracy yield to some reasonable reforms.

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10. (U) It is significant that the private sector is able to raise its voice and air complaints to government officials, and even more significant that government officials take time to listen and respond publicly. While the exchange may not always be exactly what we want to hear, the exchange itself is critical to the continuing advancement of Mozambique's democracy and economy.

La Lime